# ART TEXTILE TECHNOLOGY INTERNATIONAL COMPANY LIMITED
# 錦藝紡織科技國際有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 565)**

## 2010 ANNUAL RESULTS ANNOUNCEMENT

The board of directors (the "Board") of Art Textile Technology International Company Limited (the "Company") is pleased to announce the consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 30 June 2010 together with the comparative figures in 2009 as follows:

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
*For the year ended 30 June 2010*

| | *NOTES* | **2010** *HK$'000* | 2009 *HK$'000* |
|---|---|---|---|
| Turnover | | **801,646** | 615,011 |
| Cost of sales | | **(699,181)** | (528,868) |
| Gross profit | | **102,465** | 86,143 |
| Other income | *5* | **6,396** | 2,481 |
| Administrative expenses | | **(34,589)** | (30,460) |
| Selling and distribution costs | | **(22,610)** | (16,807) |
| Other expenses | | **(2,480)** | (5,518) |
| Finance costs | *6* | **(24,748)** | (13,417) |
| Profit before tax | | **24,434** | 22,422 |
| Income tax expense | *7* | **(18,883)** | (15,151) |
| Profit for the year | *8* | **5,551** | 7,271 |
| Other comprehensive income | | | |
| Exchange differences arising on translation | | **–** | 18,025 |
| Other comprehensive income for the year (net of tax) | | **5,551** | 18,025 |
| Total comprehensive income for the year | | **5,551** | 25,296 |
| EARNINGS PER SHARE | *10* | | |
| Basic (HK cents per share) | | **0.53** | 0.70 |
| Diluted (HK cents per share) | | **0.53** | 0.70 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*At 30 June 2010*

| | NOTES | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **602,934** | 530,136 |
| Prepaid lease payments | | **117,473** | 120,100 |
| Deposits for acquisition of plant and equipment | | **8,309** | 21,164 |
| | | **728,716** | 671,400 |
| **CURRENT ASSETS** | | | |
| Inventories | | **104,642** | 59,342 |
| Trade and other receivables | *11* | **230,101** | 97,115 |
| Prepaid lease payments | | **2,627** | 2,627 |
| Pledged bank deposits | | **52,317** | 37,139 |
| Bank balances and cash | | **427,116** | 434,804 |
| | | **816,803** | 631,027 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | *12* | **232,886** | 206,717 |
| Tax liabilities | | **3,864** | 9,460 |
| Secured bank borrowings | | **390,341** | 234,163 |
| Obligations under finance leases | | **29,478** | 11,781 |
| Unsecured bank borrowings | | **3,409** | – |
| Deferred income | | **653** | – |
| | | **660,631** | 462,121 |
| **NET CURRENT ASSETS** | | **156,172** | 168,906 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **884,888** | 840,306 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | | **10,406** | 10,406 |
| Share premium and reserves | | **819,340** | 813,789 |
| Equity attributable to owners of the Company | | **829,746** | 824,195 |
| **NON-CURRENT LIABILITIES** | | | |
| Obligations under finance leases | | **43,713** | 11,003 |
| Deferred income | | **3,921** | – |
| Deferred tax liabilities | | **7,508** | 5,108 |
| | | **55,142** | 16,111 |
| | | **884,888** | 840,306 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 30 June 2010*

### 1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its immediate and ultimate holding company is Talent Crown Investment Limited, a private company incorporated in the British Virgin Islands. Its ultimate controlling party is Mr. Chen Dong. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The consolidated financial statements are presented in Hong Kong dollars ("HKD") and the functional currency of the Company is Renminbi ("RMB"). The consolidated financial statements are presented in HKD for the convenience of the shareholders because the Company's shares are listed in Hong Kong.

The Company is an investment holding company. Its subsidiaries are principally engaged in the manufacture and sales of cotton yarn, finished woven fabrics and finished cotton fabrics.

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)")

The impact of the application of the new and revised HKFRSs is discussed below.

**New and revised HKFRSs affecting presentation and disclosure only**

*Hong Kong Accounting Standard ("HKAS") 1 (Revised in 2007) Presentation of Financial Statements*

HKAS 1 (2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

*HKFRS 8 Operating Segments*

The Standard, replacing HKAS 14: Segment Reporting, requires segment information to be reported based on internal information used by management to evaluate the performance of operating segments and allocate resources to those segments. The adoption of HKFRS 8 had resulted in a re-designation of the Group's reportable segments.

The application of the other new and revised HKFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis and in accordance with the HKFRSs issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Companies Ordinance of the Laws of Hong Kong.

## 4. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1 July 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. The application of HKFRS 8 has resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker who reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

All of the Group's operations and assets are located in the People's Republic of China (the "PRC"), except that less than 10% of the Group's turnover and profit in connection with sales to overseas customers are not separately reported. Therefore, the chief operating decision-maker only reviews the Group's business from a product perspective, instead of a geographic perspective. By reviewing from a product perspective, the management of the Company assesses the performance from sales of yarn and garment fabrics.

The chief operating decision-maker assesses the performance of the operating segments based on sales and net profit.

| | Yarn | Garment fabrics | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Year ended 30 June 2010** | | | |
| Total sales | **172,483** | **653,544** | **826,027** |
| Inter-segment sales | **(16,634)** | **(7,747)** | **(24,381)** |
| Turnover (from external customers) | **155,849** | **645,797** | **801,646** |
| Segment results | **(34,602)** | **62,948** | **28,346** |
| Loss on disposal of subsidiaries | | | **(23)** |
| Income tax expense | | | **(18,883)** |
| Central administration costs | | | **(3,889)** |
| Profit for the year | | | **5,551** |
| Depreciation and amortisation | **28,896** | **27,082** | **55,978** |

| | Yarn | Garment fabrics | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Year ended 30 June 2009** | | | |
| Total sales | 6,296 | 616,317 | 622,613 |
| Inter-segment sales | – | (7,602) | (7,602) |
| Turnover (from external customers) | 6,296 | 608,715 | 615,011 |
| Segment results | (32,410) | 62,236 | 29,826 |
| Income tax expense | | | (15,151) |
| Central administration costs | | | (7,404) |
| Profit for the year | | | 7,271 |
| Depreciation and amortisation | 14,387 | 26,214 | 40,601 |

In prior years, no analysis on business segment was provided as substantially all the Group's turnover and segment results were derived from the manufacture and sales of finished fabrics. In additions, no geographical market analysis is provided as the Group's turnover and contribution to segment results were substantially derived from the customers in the PRC and the assets are substantially located in the PRC.

## 5. OTHER INCOME

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Bank interest income | **2,040** | 2,474 |
| Sales of scrap materials | **1,018** | – |
| Government grants received for research and development | **2,614** | – |
| Others | **724** | 7 |
| | **6,396** | 2,481 |

## 6. FINANCE COSTS

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest on | | |
| – Bank borrowings wholly repayable within five years | **20,136** | 9,857 |
| – Finance leases | **4,612** | 3,560 |
| | **24,748** | 13,417 |

## 7. INCOME TAX EXPENSE

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| *Income tax recognised in profit or loss* | | |
| PRC Enterprise Income Tax ("EIT") | | |
| – Current income tax | **16,000** | 18,646 |
| – Under/(over) provision in prior years | **483** | (5,785) |
| | **16,483** | 12,861 |
| Deferred tax | **2,400** | 2,290 |
| Total | **18,883** | 15,151 |

Hong Kong Profits Tax is calculated at 16.5% (2009: 16.5%) of the estimated assessable profit for the year. No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group did not generate any assessable profits arising in Hong Kong for both years.

Under the Law of the PRC on EIT (the "EIT Law") and implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Deferred taxation of HK$2,400,000 (2009: HK$2,290,000) has been provided for in the consolidated financial statements in respect of the undistributed profits earned by the Company's PRC subsidiaries starting from 1 January 2008 attributable to the Group under the EIT Law that are subject to withholding tax upon the distribution of such profits to the shareholders outside the PRC.

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| *Income tax recognised directly in equity* | | |
| Income tax relating to exchange difference on translating foreign operations | **–** | – |

## 8. PROFIT FOR THE YEAR

| | 2010<br>*HK$'000* | 2009<br>*HK$'000* |
|---|---|---|
| Profit for the year has been arrived at after charging (crediting): | | |
| Staff costs | | |
| – directors' emoluments | **3,945** | 3,714 |
| – other staff's salaries and other benefits | **21,687** | 17,583 |
| – other staff's retirement benefit scheme contributions | **2,647** | 2,361 |
| – other staff's share-based payment expense | **–** | 2,333 |
| | **28,279** | 25,991 |
| Allowance for (write-back of) bad and doubtful debts | **229** | (521) |
| Auditor's remuneration | **630** | 580 |
| Depreciation of property, plant and equipment | **53,425** | 38,096 |
| Exchange loss, net | **113** | 264 |
| Loss on disposal of property, plant and equipment | **102** | 617 |
| Loss on disposal of subsidiaries | **23** | – |
| Release of prepaid lease payments | **2,627** | 2,601 |
| Research and development costs | **2,062** | 1,901 |

## 9. DIVIDENDS PAID

No dividend was paid or proposed for the year ended 30 June 2010 nor has any dividend been proposed since the end of the reporting period (2009: None).

## 10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

| | 2010<br>*HK$'000* | 2009<br>*HK$'000* |
|---|---|---|
| Earnings: | | |
| Profit for the year attributable to the owners of the Company and earnings for the purposes of basic and diluted earnings per share | **5,551** | 7,271 |

| | 2010 | 2009 |
|---|---|---|
| | ***'000*** | *'000* |
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **1,040,602** | 1,040,602 |
| Effect of dilutive potential ordinary shares in respect of share options issued by the Company | **–** | – |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **1,040,602** | 1,040,602 |

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options as the exercise prices of those options are higher than the average market prices for the Company's shares for both 2009 and 2010.

## 11. TRADE AND OTHER RECEIVABLES

| | 2010 | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **101,647** | 60,455 |
| Less: Allowance for doubtful debts | **(229)** | – |
| | **101,418** | 60,455 |
| Other receivables | **123,660** | 36,660 |
| Bills receivables | **5,023** | – |
| | **230,101** | 97,115 |

In the current year, HK$3,604,000 (2009: HK$1,840,000) trade receivables of the Group are denominated in United States dollar.

The Group allows average credit period ranging from 45 days to 90 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period:

| | 2010 | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 – 60 days | **77,685** | 56,224 |
| 61 – 90 days | **2,974** | 2,984 |
| Over 90 days | **20,759** | 1,247 |
| Trade receivables | **101,418** | 60,455 |

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits for that customer. Limits attributed to customers are reviewed regularly. 79% (2009: 98%) of the trade receivables that are neither past due nor impaired have good credit rating under internal credit assessment adopted by the Group.

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of HK$20,759,000 (2009: HK$1,247,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is between 91 to 120 days (2009: 91 to 120 days).

Ageing of past due but not impaired

| Overdue by: | **2010** ***HK$'000*** | 2009 *HK$'000* |
|---|---|---|
| 0 – 60 days | **448** | 1,247 |
| 61 – 90 days | **–** | – |
| Over 90 days | **20,311** | – |
| Total | **20,759** | 1,247 |

The Group has provided an impairment loss of HK$229,000 for the year ended 30 June 2010 (2009: Nil). The Group does not hold any collateral over these balances.

Movement in the allowance for doubtful debts

| | **2010** ***HK$'000*** | 2009 *HK$'000* |
|---|---|---|
| Balance at beginning of the year | **–** | 509 |
| Impairment loss recognised on receivables | **229** | – |
| Impairment loss reversed | **–** | (521) |
| Exchange realignment | **–** | 12 |
| Balance at end of the year | **229** | – |

The Group would provide fully for all receivables over 180 days because according to historical experience, such receivables that were past due beyond 180 days were generally not recoverable. However, after the provision of individual impairment loss, no further collective impairment loss was considered necessary. No average age of receivables are over 180 days as at 30 June 2009 and 2010.

## 12. TRADE AND OTHER PAYABLES

| | 2010 | 2009 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Trade payables | **22,206** | 22,924 |
| Bill payables | **158,605** | 126,806 |
| Other payables | **52,075** | 56,987 |
| | **232,886** | 206,717 |

The average credit period on trade payables is 45 days (2009: 45 days). The average credit period on bill payables is ranged from 90 days to 180 days (2009: 90 days to 365 days).

The following is an aged analysis of trade and bill payables based on the invoice date at the end of the reporting period:

| | 2010 | 2009 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| 0 – 60 days | **137,936** | 51,517 |
| 61 – 90 days | **24,807** | 8,693 |
| Over 90 days | **18,068** | 89,520 |
| Trade and bill payables | **180,811** | 149,730 |

As at 30 June 2010, the Group's other payables comprise of construction in progress payable to contractors of HK$3,999,000 (2009: HK$9,019,000).

# MANAGEMENT DISCUSSION AND ANALYSIS

## OPERATIONAL AND FINANCIAL REVIEW

The Group is principally engaged in the manufacture and sales of cotton yarn, finished woven fabrics and finished cotton fabrics targeting at mid to high-end markets both in the PRC and overseas. The Group vertically integrates its production process to include research and development, yarn spinning, grey fabric weaving, garment fabric dyeing and setting, cloth finishing such as pattern pressing and calendaring. The Group's products are used for manufacturing down wear, sports wear, household products such as sofa and curtain and men's and women's fashions.

The Group ensures steadier supply and better quality control of grey fabrics for the dyeing process by weaving part of the woven fabrics itself, which in turn, reduces production costs and shortens the production cycle. In addition, the Group's existing dyeing machinery and equipment enlarge the varieties of down wear, sports wear and household products with different nature which in turn boosts the market expansion.

In order to capture the demand for pure cotton knit fabrics from current customers, the Group acquired yarn spinning assets in the financial year of 2008. This acquisition aligns with the Group's future development plan. The assets acquired comprise of plant, machinery and equipment and related auxiliary facilities in Zhengzhou city of Henan province, the PRC. Its construction, delivery, and installation were substantially completed in 2008. The commercial production of the first three production lines commenced during the current year. Most of the final product, yarn for weaving into pure cotton knit fabrics, was sold to external customers while the remaining was retained for internal use. In the long run, the portion of the yarn reserved for internal use will be increased. With the dyeing machinery and equipment attained international standard installed in the plant in Changle city, the Group will be able to integrate its production process vertically, from yarn spinning, grey fabric weaving to garment fabric dyeing.

In view of implementing the Group's plan in expanding sales markets, the Group participated in the textile fairs held in Shanghai and Beijing, the PRC during the current year so as to promote and sell its products to more local and overseas customers.

**Turnover**

For the financial year ended 30 June 2010, the Group recorded a turnover of approximately HK$801,646,000 (2009: HK$615,011,000), approximately 30.3% more than that in 2009. The increase in turnover was attributable to the commencement of commercial sales of the yarn that produced in the plant in Zhengzhou city during the current year.

**Gross Profit**

The gross profit margin of the Group of approximately 12.8% in the current year slightly decreased when compared with that in 2009 of approximately 14.0%. It was due to an increase in costs of raw materials and energy and depreciation incurred by the plant in Zhengzhou city, of which the commercial production of the first and second production lines began to function during the current year.

**Profit for the Year**

For the financial year ended 30 June 2010, the Group's profit was approximately HK$5,551,000 (2009: HK$7,271,000), approximately 23.7% less than that in 2009. Net profit margin for the year ended 30 June 2010 dropped slightly to approximately 0.7% (2009: 1.2%) due to the increase in selling and distribution costs, administrative expenses and finance costs as a result of the operation of the plant in Zhengzhou city during the current year.

**Other income**

The Group's other income for the financial year ended 30 June 2010 was approximately HK$6,396,000 (2009: HK$2,481,000). Such significant increase in the current year was attributable to the provision of a subsidy by the PRC regional government and the sales of debris cotton generated from the production process.

**Expenses**

Administrative expenses amounted to approximately HK$34,589,000 (2009: HK$30,460,000), representing approximately 4.3% (2009: 5.0%) of turnover for the year ended 30 June 2010. Administrative expenses increased by approximately 13.6% when compared with that in 2009. It was due to increased administrative expenses incurred by the plant in Zhengzhou city as a result of its operation of the first and second production lines throughout the current year.

Selling and distribution costs amounted to approximately HK$22,610,000 (2009: HK$16,807,000), representing approximately 2.8% (2009: 2.7%) of turnover for the year ended 30 June 2010. The increase in selling and distribution costs by approximately 34.5% as compared with that of 2009 was due to higher marketing and promotion expenses incurred in the current year as a result of the commencement of commercial sales of the plant in Zhengzhou city.

Other expenses amounted to approximately HK$2,480,000 (2009: HK$5,518,000), representing approximately 0.3% (2009: 0.9%) of turnover for the year ended 30 June 2010. The decrease was due to minor exchange fluctuation during the current year.

Finance costs amounted to approximately HK$24,748,000 (2009: HK$13,417,000), representing approximately 3.1% (2009: 2.2%) of turnover for the year ended 30 June 2010. The increase was due to more bank loans and finance leases undertaken by the Group for purchase of machinery and equipment and for the operation of the plant in Zhengzhou city during the current year.

**Dividend**

The Board does not recommend the payment of a final dividend for the year ended 30 June 2010 (2009: Nil).

## FUTURE PLANS AND PROSPECTS

The textile industry gradually recovers since the second half of 2009, but still has some distant to reach to the climax taken place before the financial crisis, especially for the overseas markets. Nevertheless, the Group believes that the operating environment of Chinese textile exports will continue to improve and therefore continues to propel its strong distribution network through maintaining good and close relationship with distribution agents and valuable customers and at the same time strengthening its current sales and marketing teams before full recovery of the global economy. The Group also sustains efforts in research and development of new products and improvement of existing products in order to meet the needs of dynamic textile and garment markets.

The construction of the plant for spinning yarn in Zhengzhou city was completed by the end of 2008 and the installation and trial run of the first and second production lines were all completed during the third quarter of 2009. Part of the yarn production commenced subsequently throughout the year ended 30 June 2010. The installation and trial run of the third production line conducted in the second quarter of 2010 and commercial production began subsequently. While the fourth production line will be commenced in the third quarter of 2010, the full production capacity of these four production lines is estimated to be approximately 15,000 tons per annum. Good quality of cotton will be used for spinning premium yarn which is targeted at mid to high-end markets. In the long run, more yarn will be produced in the Zhengzhou plant and will be used for weaving into pure cotton knit fabrics. Dyeing process of such fabrics will also be completed in the Changle plant. The above processes will enable the Group to further develop its vertical integration.

The future development of the textile industry in the PRC is still expected to face significant challenges, such as rising raw material costs and the intensifying international trade protectionism. Looking ahead, the Group will continue to capture opportunities for expansion and diversify its business for long term development in order to maximize the values for the shareholders of the Company.

**LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 June 2010, the Group had net current assets and total assets less current liabilities of approximately HK$156,172,000 (2009: HK$168,906,000) and HK$884,888,000 (2009: HK$840,306,000), respectively. The Group maintains a strong financial position by financing its operations with internally generated resources, finance leases and bank loans. As at 30 June 2010, the Group had cash and bank deposits of approximately HK$479,433,000 (2009: HK$471,943,000). The current ratio of the Group was approximately 123.6% (2009: 136.6%).

Shareholders' fund of the Group as at 30 June 2010 was approximately HK$829,746,000 (2009: HK$824,195,000). As at 30 June 2010, the total bank borrowings of the Group, repayable within 12 months from the end of the reporting period, denominated in RMB346,500,000 were equivalent to HK$393,750,000 (2009: HK$234,163,000); and obligations under finance leases for machinery and equipment was of approximately HK$73,191,000 (2009: HK$22,784,000), altogether giving a gross debt gearing ratio (i.e. total borrowings/shareholders' fund) of approximately 56.3% (2009: 31.2%).

The financial position of the Group has been moderate throughout the reporting year and the Group has adequate resources in meeting its short term and long term obligations.

**FINANCING**

As at 30 June 2010, the total banking facilities of the Group amounted to about HK$611,364,000 (2009: HK$374,115,000), of which, approximately HK$528,200,000 (2009: HK$323,830,000) was utilized.

The Board believes that the existing financial resources will be sufficient to meet future expansion plans and, if necessary, the Group will be able to obtain additional financing with favourable term.

**CAPITAL STRUCTURE**

As at 30 June 2010, the share capital of the Company comprises ordinary shares only.

## FOREIGN EXCHANGE RISK AND INTEREST RATE RISK

During the current year, the Group was not subject to any significant exposure to foreign exchange rates risk as the majority of its transactions were denominated in Renminbi. Hence, no financial instrument for hedging was employed.

The Board is of the opinion that the Group is not subject to any significant interest rate risk even though part of the bank borrowings of the Group were at floating rate basis.

## CHARGE ON GROUP'S ASSETS

As at 30 June 2010, certain leasehold land and buildings, and plant and machinery of the Group with aggregate carrying values of approximately HK$329,372,000 (2009: HK$290,253,000) and approximately HK$46,412,000 (2009: HK$60,619,000), respectively, and certain inventory with value of approximately HK$6,818,000 (2009: HK$15,733,000) were all pledged to banks to secure banking facilities granted to the Group; together with the bank deposits of the Group of approximately HK$52,317,000 (2009: HK$37,139,000).

As at 30 June 2010, the carrying value of the Group's certain plant and machinery held under finance leases was approximately HK$170,313,000 (2009: HK$49,420,000).

As at 30 June 2009, certain leasehold land with carrying value of approximately HK$59,171,000 was pledged to a contractor to secure the payments of certain construction in progress payable.

## CAPITAL EXPENDITURE

During the year, the Group invested approximately HK$126,340,000 (2009: HK$107,727,000) in property, plant and equipment, of which 93.3% (2009: 90.1%) was used for purchase of plant and machinery, 4.6% (2009: 5.4%) for construction of auxiliary facilities, and the remaining was used for purchase of other property, plant and equipment.

As at 30 June 2010, the Group had no capital commitments (2009: HK$98,222,000) in property, plant and equipment. The capital commitments in previous year were funded by internally generated resources, finance leases and bank loans.

## STAFF POLICY

The Group had 1,559 employees altogether in the PRC and Hong Kong as at 30 June 2010. The Group offers a comprehensive and competitive remuneration, retirement scheme and benefit package to its employees. Discretionary bonus is offered to the Group's staff depending on their performance. The Group is required to make contribution to a social insurance scheme in the PRC. Moreover, the Group and its employees in the PRC are each required to make contribution to fund the endowment insurance, unemployment insurance, medical insurance, housing provident fund and employees' compensation insurance at the rates specified in the relevant PRC laws and regulations. The Group has adopted a provident fund scheme, as required under the Mandatory Provident Fund Schemes Ordinance of the Laws of Hong Kong, for its employees in Hong Kong.

The Group also provides periodic internal training to its staff.

Each of the independent non-executive directors is appointed for a term of 1 year commencing from 1 September each year.

## CONTINGENT LIABILITIES

At the end of the reporting period, the Group and the Company did not have any significant contingent liabilities.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## AUDIT COMMITTEE

The audit committee of the Company comprises three independent non-executive directors of the Company who has reviewed with the management and the external auditor the accounting principles and practices adopted by the Group and discussed auditing and financial reporting matters including the review of the consolidated financial statements and annual results for the year ended 30 June 2010.

## CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the year ended 30 June 2010.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS (THE "MODEL CODE")

The Group has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions. All directors of the Company have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 30 June 2010.

## PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange at www.hkexnews.hk and at the website of the Company http://arttextile.etnet.com.hk. An annual report for the year ended 30 June 2010 will be dispatched to the shareholders of the Company and available on the above websites in due course.

By order of the board
**Art Textile Technology International Company Limited**
**Chen Jinyan**
*Chairman*

Hong Kong, 24 September 2010

*As at the date of this announcement, the executive directors of the Company are Mr. Chen Jinyan, Mr. Chen Dong and Mr. Chen Jinqing; and the independent non-executive directors of the Company are Mr. Lo Kin Chung, Mr. Huang Yongfeng and Mr. Yu Zhongming.*